

**SAMPATH BANK PLC [SAMP.N0000]****MAINTAIN BUY****ROBUST SHOW DESPITE NAGGING MACRO PRESSURES...****Fair Value: 2021E - LKR 62.0 [+19%]**

Total Return with DPS: 2021E - 19% [AER 81%]

**2022E-LKR 73.0 [+40%]**

2022E - 47% [AER 35%]

SAMP's earnings increased by 83% YoY in the 2Q2021 to LKR 2.4Bn while the surge was attributed to the rise in Total Operating Income by 38.4% to LKR 14.7Bn despite the increase in impairment by 50.1%YoY to LKR 4.3Bn. Total Operating Income was led by the improvement in NII, Net Fee and Commission and Net Other Operating Income. Considering the strong performance in 1Q and 2Q of 2021, we maintain the earnings forecast of SAMP for 2021E at LKR 13.7Bn (+62%YoY) and 2022E at LKR 16.5Bn (21%YoY). With the strong capital buffer, we expect SAMP's lending portfolio to grow with the gradual resumption of economic activities while margins to enhance amidst the potential rise in interest rates. However, taking into consideration the higher risk-free rate applicable for valuations, with the potential rise in interest rates, we have downgraded SAMP's fair value for 2021E to LKR 62.0 (from previous LKR 68.0) and 2022E to LKR 73.0 (from previous LKR 80.0). **MAINTAIN BUY**

LKR (Mn)	2Q2020	2Q2021	YoY	2H2020	2H2021	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	8,104	10,866	+34%	18,935	21,105	+11%
Total Operating Income	10,611	14,684	+38%	25,566	30,454	+19%
Net Operating Income	7,758	10,400	+34%	17,509	24,591	+40%
Pre Tax Profit	2,179	3,478	+60%	5,480	10,197	+86%
Net Profit	1,320	2,417	+83%	3,996	7,520	+88%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	744,154	783,559	+5%	744,154	783,559	+5%
Shareholders' Equity	110,766	119,637	+8%	110,766	119,637	+8%
NAVPS	290.4	104.5	-64%	290.4	104.5	-64%

**Earnings improved by 83%YoY led by growth in NII despite the rise in impairment**

SAMP registered a 83%YoY surge in earnings with the improvement in Total Operating Income by 38.4%YoY to LKR 14.7Bn despite the rise in impairment by 50.1%YoY which impacted the bottom line. SAMP's Net interest income for 2Q2021 was LKR 10.9Bn reflecting an increase of 34.1%YoY, led by the decrease recorded in interest expenses as a result of timely re-pricing of liability products despite a decline in interest income by 0.5%YoY owing to low interest rate regime. Net Fee and Commission Income comprises of income from various sources such as credit cards, trade, and electronic channels while the growth in this segment was driven mainly by higher engagements in card-related activities. Net Other Operating Income grew by 173.8%YoY backed by the increase in realized exchange income stemming from the 1.1% depreciation of the LKR against the USD reported during 2Q2021. We estimate NII and Net Fee and Commission Income to grow by 12%YoY and 10%YoY to LKR 41.3Bn and to LKR 9.9Bn for 2021E respectively.

**Impairment rose by 50.1%YoY for 2Q2021 as a result of prudent provisioning for risk categories**

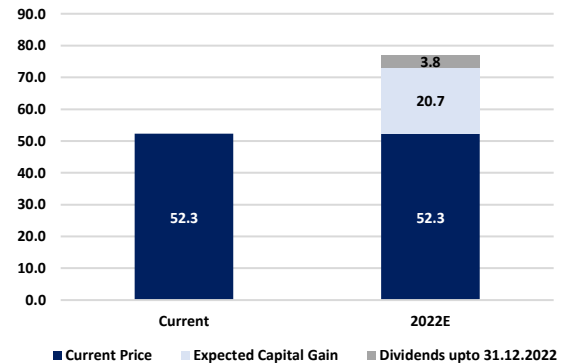
Credit granted for 1H2021 amounted to LKR 30.0Bn with 4.1%YTD growth mainly driven by Term Loans, Pawning & Gold Loans and Overdrafts although loan book growth was relatively lesser compared to the private sector credit (which grew by nearly 6.7% during 1H2021) as a result of SAMP's conservative nature in lending. SAMP provided LKR 4.3Bn in 2Q2021 as the impairment, up by 50%YoY, relative to 2Q2020 on the back of additional provisions taken despite signs of an economic recovery apparent in 1Q2021. Following a reassessment of the impairment assumptions, SAMP decided to apply a more prudent approach in 2Q2021, in light of the evolving impact of COVID 19 third wave and the extension of the moratorium framework. Accordingly, we have estimated an impairment of LKR 11.6Bn (-12%YoY) for 2021E and LKR 10.0Bn (-14%YoY) for 2022E.

**Well above capital ratios to boost lending portfolio when the economic activities improve**

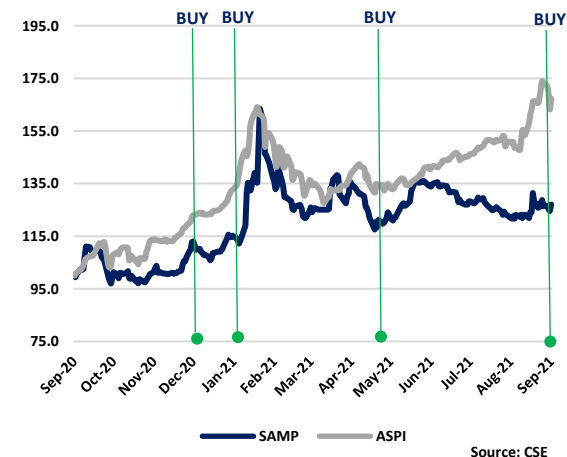
As at 30<sup>th</sup> Jun 2021, SAMP's Tier I and Total Capital Adequacy Ratios stand at 12.5% and 15.7% respectively which are well above the minimum regulatory requirement of 8.0% and 12.0%. We believe that SAMP's adequate capital buffer may enable it to sail through the tough times and help in boosting the credit growth in the near term when the economic activity recovers to a greater extent.

**Fair Value is downgraded to LKR 62.0 for 2021E and LKR 73.0 for 2022E – MAINTAIN BUY**

Despite maintenance of earnings, we have downgraded SAMP's fair value to LKR 62.0 for 2021E and LKR 73.0 for 2022E considering the surge in risk free rate used in valuation with a further potential pick up in interest rates during the latter period of the year. However, at the current market price of LKR 52.3, 2021E and 2022E fair values imply an upside of 19% and 40% respectively. Moreover, SAMP trades well below its current book value of LKR 104.5 with a PBV of 0.5x **MAINTAIN BUY**.

**FIRST CAPITAL RESEARCH**

Hiruni Perera +94 11 263 9864

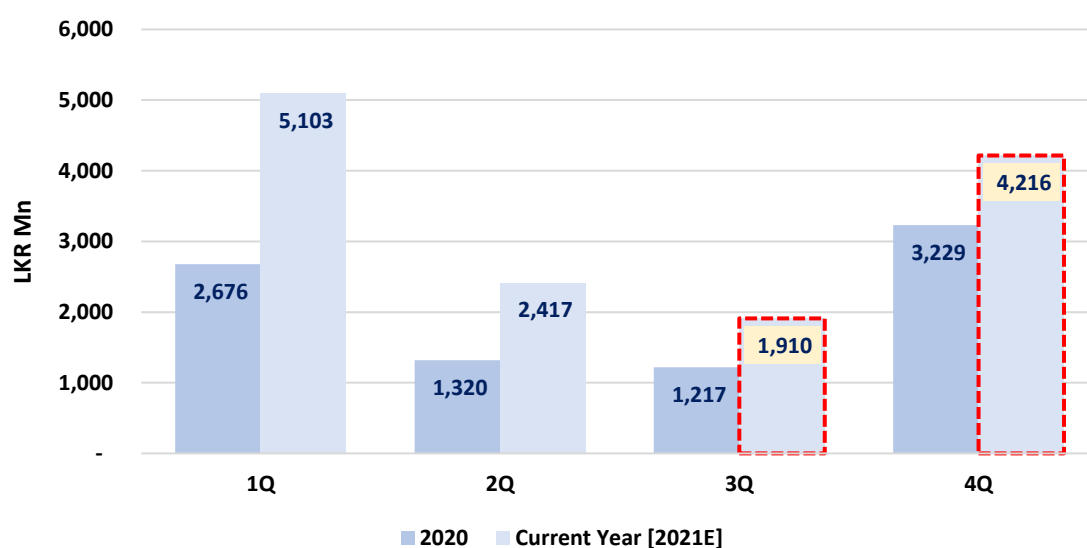
[hiruni@firstcapital.lk](mailto:hiruni@firstcapital.lk)**Price movement of SAMP vs ASPI and past recommendations****Minimum Return for BUY:**

**Buy Below for 2021E [AER of 12.1% with DPS]: LKR 60.0**  
SAMP categorized as 'Grade A' counter

**Disclosure on Shareholding:**

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of SAMP during the five trading days prior to the issuance of this document.

## Quarterly Earnings



In LKR Mn	2021E - O	2021E - R	% Change	2022E - O	2022E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	41,324	41,324	+0%	45,714	45,714	+0%
Total Operating Income	54,506	54,506	+0%	58,290	58,290	+0%
Post Impairment Income	42,865	42,865	+0%	48,289	48,289	+0%
Pre Tax Profit	18,953	18,953	+0%	22,965	22,965	+0%
Net Profit	13,646	13,646	+0%	16,535	16,535	+0%
Adjusted EPS	11.9	11.9		14.4	14.4	
Growth YoY	62%	62%		21%	21%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	820,205	820,205	0%	941,227	941,227	0%
Shareholders' Equity	123,076	123,076	+0%	135,244	135,244	+0%
<b>Adjusted NAVPS</b>	<b>107.5</b>	<b>107.5</b>		<b>118.2</b>	<b>118.2</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>11.5%</b>	<b>11.5%</b>		<b>12.8%</b>	<b>12.8%</b>	
<b>PER (x)</b>	<b>4.4</b>	<b>4.4</b>		<b>3.6</b>	<b>3.6</b>	
<b>PBV (x)</b>	<b>0.5</b>	<b>0.5</b>		<b>0.4</b>	<b>0.4</b>	

## Valuation Table

P/E 31 December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	30,297	40,872	44,764	36,827	41,324	45,714	48,812
Total Operating Income	42,473	57,233	59,141	50,066	54,506	58,290	61,584
<b>Net Profit</b>	<b>12,683</b>	<b>12,606</b>	<b>11,668</b>	<b>8,443</b>	<b>13,646</b>	<b>16,535</b>	<b>18,669</b>
Adjusted EPS (LKR)	11.1	11.0	10.2	7.4	11.9	14.4	16.3
YoY Growth (%)	34%	-1%	-7%	-28%	62%	21%	13%
<b>Valuations</b>							
PER (x)	4.7x	4.7x	5.1x	7.1x	4.4x	3.6x	3.2x
PBV (x)	0.9x	0.7x	0.5x	0.5x	0.5x	0.4x	0.4x
DY (%)	32.9%	7.6%	7.5%	5.3%	7.3%	8.8%	10.0%

### Valuation Summary

Expected SAMP price	2021E	2022E
Justified PBV based target price	65.6	72.8
PER Valuation based target price	59.6	72.2
RI Valuation based target price	58.9	73.9
<b>Average Target Price</b>	<b>61.4</b>	<b>73.0</b>
<b>Target Price after Rounding off</b>	<b>62.0</b>	<b>73.0</b>

Return	2021E	2022E
<b>Target Price</b>	<b>62.0</b>	<b>73.0</b>
<b>Current Price</b>	<b>52.3</b>	<b>52.3</b>
Capital Gain (LKR)	9.7	20.7
Dividends upto 31st Dec (LKR)	0.0	3.8
Capital Gain %	19%	40%
Dividend Yield %	0%	7%
<b>Total Return %</b>	<b>19%</b>	<b>47%</b>
<b>Annualized Return %</b>	<b>81%</b>	<b>35%</b>

### Residual Income Valuation

Residual Income based Valuation	2021E	2022E
PV of Residual Income	-46,967	-38,531
No. of Shares ('Mn)	1,144	1,144
RI per Share	-41.0	-33.7
Opening Book value per Share	100.0	107.5
<b>Value per Share</b>	<b>58.9</b>	<b>73.9</b>

COE	2021E	2022E
Rf	7.0%	9.0%
Rm	15.0%	17.0%
Growth %	3.0%	3.0%
$\beta$	1.24	1.24
$Ke=Rf+\beta(Rm-Rf)$	16.9%	18.9%

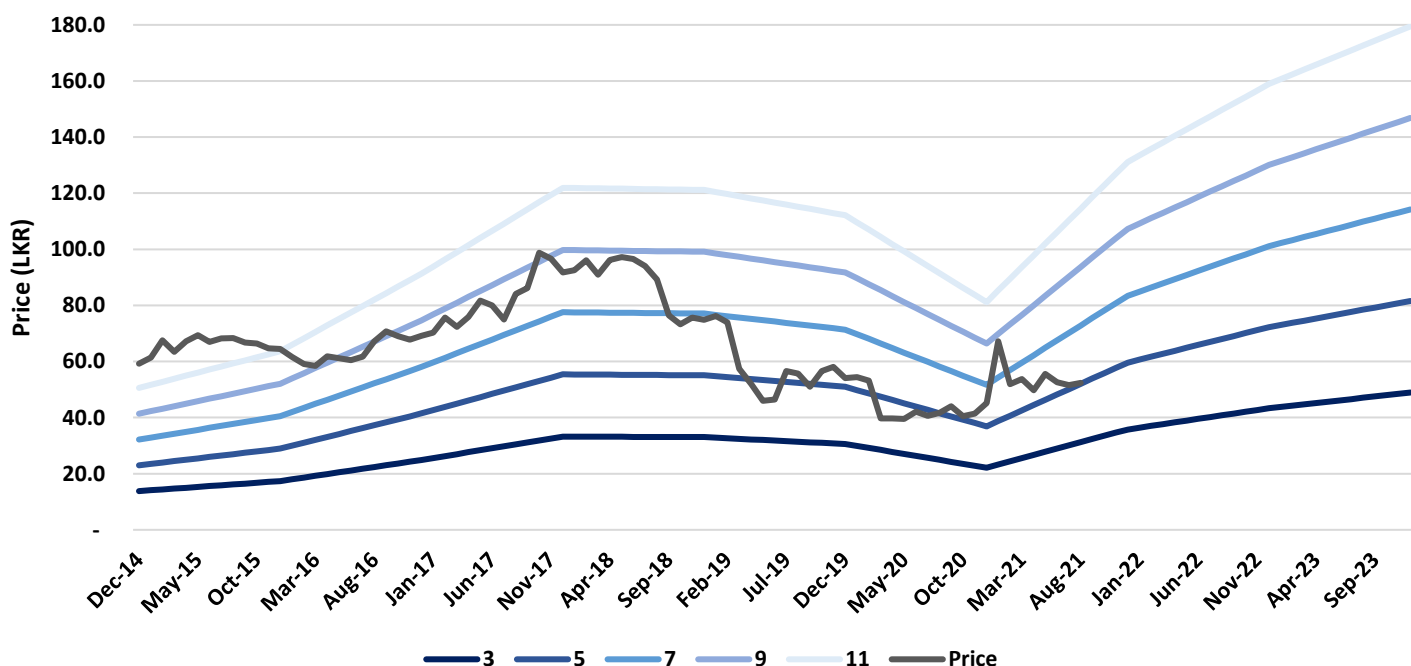
### Justified PBV Valuation

Justified PBV based Valuation	2021E	2022E
ROAE	11.5%	12.8%
Growth	3.0%	3.0%
COE	16.9%	18.9%
PBV	0.61	0.62
NAVPS	107.5	118.2
<b>Target Price</b>	<b>65.6</b>	<b>72.8</b>

### PER Valuation

PER based Valuation	2021E	2022E
Earnings (LKR 'Mn)	13,646	16,535
No. of Shares ('Mn)	1,144	1,144
EPS	11.9	14.4
Expected PER	5.0x	5.0x
<b>Price at 5.0x Earnings</b>	<b>59.6</b>	<b>72.2</b>

### PER Chart



**Appendix I: Statement of Income and Expenses**

Income Statement (LKR Mn) P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Gross Income</b>	<b>97,100</b>	<b>121,884</b>	<b>125,921</b>	<b>109,183</b>	<b>126,032</b>	<b>146,729</b>	<b>172,568</b>
Interest Income	83,909	103,833	109,855	94,647	111,659	132,867	158,537
Interest Expenses	53,612	62,960	65,092	57,820	70,335	87,153	109,725
<b>Net Interest Income</b>	<b>30,297</b>	<b>40,872</b>	<b>44,764</b>	<b>36,827</b>	<b>41,324</b>	<b>45,714</b>	<b>48,812</b>
Fee & Other Income	12,175	16,361	14,378	13,239	13,181	12,576	12,772
<b>Total Operating Income</b>	<b>42,473</b>	<b>57,233</b>	<b>59,141</b>	<b>50,066</b>	<b>54,506</b>	<b>58,290</b>	<b>61,584</b>
Impairment (Charges)/ Reversal	-2,634	-12,139	-13,751	-13,201	-11,641	-10,001	-8,960
<b>Net Operating Income</b>	<b>39,839</b>	<b>45,094</b>	<b>45,391</b>	<b>36,866</b>	<b>42,865</b>	<b>48,289</b>	<b>52,624</b>
Less : Operating expenses							
Staff Cost	8,702	9,675	10,585	11,227	11,961	12,974	14,073
Other Operating Expenses	9,318	11,149	8,790	7,836	7,412	7,072	6,748
<b>Total Operating Expenses</b>	<b>18,019</b>	<b>20,824</b>	<b>21,901</b>	<b>21,582</b>	<b>19,373</b>	<b>20,046</b>	<b>20,821</b>
<b>Profit from operations</b>	<b>21,820</b>	<b>24,270</b>	<b>23,490</b>	<b>15,284</b>	<b>23,492</b>	<b>28,242</b>	<b>31,803</b>
VAT on Financial Services & DRL	4,309	5,149	7,152	3,394	4,539	5,277	5,874
<b>Profit Before Tax</b>	<b>17,510</b>	<b>19,121</b>	<b>16,338</b>	<b>11,890</b>	<b>18,953</b>	<b>22,965</b>	<b>25,929</b>
Income Tax Expense	4,828	6,515	4,670	3,447	5,307	6,430	7,260
<b>Profit for the Year</b>	<b>12,683</b>	<b>12,606</b>	<b>11,668</b>	<b>8,443</b>	<b>13,646</b>	<b>16,535</b>	<b>18,669</b>
Minority Interest	0	0	0	0	0	0	0
<b>Profit attributable to Equity Holders</b>	<b>12,683</b>	<b>12,606</b>	<b>11,668</b>	<b>8,443</b>	<b>13,646</b>	<b>16,535</b>	<b>18,669</b>
EPS	11.1	11.0	10.2	7.4	11.9	14.4	16.3

**Appendix II: Statement of Financial Position**

Balance Sheet (LKR Mn) As at 31st December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Assets</b>							
Cash and cash equivalents	22,088	19,218	17,978	29,219	31,811	39,650	43,848
Financial instruments	23,917	31,150	14,297	17,732	12,696	14,407	16,500
Loans to & Deposits with Banks	44,325	45,305	38,280	16,563	20,313	40,750	44,825
Loans and Receivables	586,371	677,538	719,047	752,438	820,205	941,227	1,092,988
Debt and other instruments	49,352	121,110	156,309	275,126	272,916	235,877	188,702
Property, plant & equipment	12,631	13,602	15,702	15,891	12,883	13,216	13,624
Other Assets	8,839	1,926	17,171	15,573	18,144	18,511	18,795
<b>Total Assets</b>	<b>826,717</b>	<b>909,849</b>	<b>999,323</b>	<b>1,149,685</b>	<b>1,218,060</b>	<b>1,332,924</b>	<b>1,448,784</b>
<b>Liabilities</b>							
Due to other customers	634,641	699,661	730,190	902,499	974,699	1,072,169	1,179,385
Due to banks	4,820	8,965	1,568	1,523	3,899	15,010	16,511
Debt issued and other borrowed funds	95,593	123,035	125,671	98,288	87,771	81,142	74,107
Current tax liabilities	5,631	9,682	7,835	4,793	0	0	0
Other liabilities	17,123	16,391	22,602	28,168	28,616	29,360	30,158
<b>Total Liabilities</b>	<b>757,808</b>	<b>857,735</b>	<b>887,866</b>	<b>1,035,271</b>	<b>1,094,984</b>	<b>1,197,681</b>	<b>1,300,162</b>
<b>Shareholders Funds</b>							
Stated Capital	16,308	32,796	47,622	49,508	49,508	49,508	49,508
Reserves	44,067	48,773	54,409	58,891	57,735	58,562	59,496
Retained earnings	8,534	8,482	9,425	6,016	15,833	27,174	39,619
<b>Shareholders Funds</b>	<b>68,908</b>	<b>90,051</b>	<b>111,457</b>	<b>114,415</b>	<b>123,076</b>	<b>135,244</b>	<b>148,622</b>
Minority Interest	0	0	0	0	0	0	0
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>826,717</b>	<b>947,785</b>	<b>999,323</b>	<b>1,149,685</b>	<b>1,218,060</b>	<b>1,332,924</b>	<b>1,448,784</b>
NAVPS	60.2	78.7	97.4	100.0	107.5	118.2	129.9



First Capital

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

Dimantha Mathew	+94 11 2639 853	Vidushika Perera	+94 11 2639 864
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
-----------------	-----------------

## EQUITY SALES

<b>CEO</b>	Jaliya Wijeratne	+94 70 2910 042	<b>Negombo</b>	
			Priyanka Anuruddha	+94 70 2910 035
<b>Colombo</b>			Priyantha Wijesiri	+94 70 2910 036
Rasika Indra Kumara	+94 77 7072 698			
Isuru Jayawardena	+94 76 7084 953			
Nishantha Mudalige	+94 70 2910 041			
Ifadh Marikar	+94 77 9625 679			
Anushka Buddhika	+94 71 4310 600			
Thushara Pathiraja	+94 70 2910 037			
Chandika Jayawardana	+94 77 3940 070			

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

## BRANCHES

<b>Kandy</b>	<b>Kurunegala</b>	<b>Matara</b>	<b>Negombo</b>
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

## Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the correctness, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or its principal, their respective Directors, or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

## About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.